

An innovative milieu: a view on regional reputation building

Aula, Pekka; Harmaakorpi, Vesa

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An innovative milieu: a view on regional reputation building

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**An innovative milieu - a view on regional reputation building:
Case study of the Lahti urban region.**

Pekka Aula*
Helsinki University
Department of Communication
PO.Box 54
FIN-00014 University of Helsinki
+358-9-191 24918 (voice); +358-9-191 24849 (fax)

Vesa Harmaakorpi
Lappeenranta University of Technology
Lahti Unit
Saimaankatu 11
FIN-15140 Lahti

Abstract

This article examines regional innovation strategies and their relationships in building regional reputation. The article studies whether it is possible for a region to build its reputation as an innovative milieu squeezed in-between the large urban regions with universities, and how such a reputation can be further enhanced. At the same time, an opinion is expressed as to how the concept of reputation can be adapted in the framework of cities' image or attraction factors.

Keywords: Reputation, innovative milieu, innovation policy, regional development, innovation systems, social capital

JEL Codes: R58, O31, O52, O18

*Corresponding author

Introduction

The importance of the regional level as a socio-economic actor has risen during the last two decades. In many cases the recent literature in the fields of, for example, evolutionary and institutional economics, see e.g. BOSCHMA, 2004 , network theory, see e.g. CANTNER & GRAF, 2006, innovation and learning systems, see e.g. HARMAAKORPI, 2006 , as well as in sociology, see e.g. TURA & HARMAAKORPI, 2005a , has focused on regional level questions seeing a region as an essential part of the economic coordination under the present techno-economic and socio-institutional paradigm see, e.g. PIHKALA et al., FORTHCOMING. The regions are seen as nodal points in the worldwide network society, where the questions of regional competitiveness should be assessed from new perspectives. The sources of regional competitiveness are seemingly changing in the current information era. In the present world, the meaning of the old resource-base creating competitiveness in the industrial era has been widely replaced by the new factors. These are often quite abstract in their nature and are typically closely related to the history, culture and institutional structure of a region.

In this article innovativeness and good reputation are seen to be important sources of regional competitiveness. Firstly we present the ability to innovate helps a region to renovate its resource and competence base in order to respond to the ever-changing techno-economic environment. Secondly we argue that a good reputation enables a region to use its resources and competences in the networked society efficiently making it a desired partner for economic transactions. The purpose is to conceptually connect the characteristics of the competitive regional innovation environment with reputation management to a cornerstone of regional competitiveness. To do this, the model of innovative milieu building is introduced. The case of the Lahti urban region in Finland is used to

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illustrate the study. The region aims at becoming known as an advanced innovative milieu, despite lacking a university and research base. In addition, our goal is to deliberate the idea that the reputation will be earned by implementing a network-facilitating innovation policy focusing on promoting practice-based innovation activities, in particular.

A model of how an innovative milieu is built

Regional competitiveness and coordinated innovation policy

The concept of regional competitiveness has been debated in recent years. KRUGMAN, 1998 questions the whole idea of territorial competitiveness as being wrong and even dangerously misleading. However, in a vast array of literature the regional level is strongly growing in importance as a reasonable entity in assessing economic growth and socio-institutional adjustment see e.g. FLORIDA, 1995; STORPER, 1997; COOKE *et al.*, 1997; SCOTT, 2000; CAMAGNI, 2002; CARLSSON, 2004; ISAKSEN, 2005. These theorists emphasise the meaning of the local business environment for the success of firms. Firms, being the real competitors in the global business forums, are seen as strongly embedded in their territorial socio-institutional set-up, see GRANOVETTER, 1985.

There is much evidence that some regions have been able to construct a more competitive environment for success than others, see e.g. SAXENIAN, 1994; BRUSCO, 1982; KOSTIAINEN, 2004. Related to this COOKE AND LEYDENSdorFF, 2006, have introduced the concept of constructed competitive advantage of the regions. Contrary to the comparative and competitive advantages, a constructive advantage necessitates coordinated policy measures in various directions COOKE & LEYDENSdorFF, 2006, 10:

- Economy, for example, regionalisation of economic development, integration of knowledge generation and commercialisation, strong local and global business networks.

- Governance, for example, strong policy support for innovators, vision led policy leadership.
- Knowledge infrastructure, for example, universities public sector research, mediating agencies etc. have to be actively involved as structural puzzle-solving capacities.
- Community and Culture, for example, cosmopolitanism, creative cultural environments, social tolerance.

”Hence, the constructed advantage is both means of understanding the noted metamorphosis in economic growth activity and a strategic policy perspective of practical use to business firms, associations, academics and policy makers” COOKE & LEYDENS DORFF, 2006, 10. Such a set-up calls for coordinated policy actions, since deliberate actions are required to increase regional competitiveness significantly: without those interactions the impact of regional spillovers is reduced, RONDÉ & HUSSLER, 2005, 1163. Building a constructive advantage by coordinated policy measures is suggested to be especially fruitful in coordinated market economies, for example, the Nordic Countries, c.f. ASHEIM & COENEN, 2005.

In this study, coordinated innovation policy is seen to be an essential sector of regional competitiveness policy. Innovations are the most essential factor in promoting regional productivity, which in the long run secures competitiveness and wellbeing for the citizens of a region FREEMAN, 1994. The concept of innovation was earlier most often understood to be a technological improvement, accomplished by an independent inventor or a scientific research group. Nowadays, innovation is considered to be most often a result of co-operation in normal social and economic activities KLINE & ROSENBERG, 1986; LUNDVALL, 1988, DOSI, 1988. The science push effect as the driving force of innovations is an exception rather than a rule in these processes SCHIENSTOCK & HÄMÄLÄINEN, 2001. More important to the creation of innovative capability is the ability of the many actors to interact, learn collectively and build a trustworthy and creative atmosphere between the innovating partners.

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Innovation policy measures have, however, basically been directed at strengthening national and regional knowledge bases. The innovation policy has been largely equivalent to science and technology policy and scientific research and technology development have been seen as the key activity in producing innovations SCHIENSTOCK & HÄMÄLÄINEN, 2001. The traditional science and technology activities will still be crucial in the future, but the emphasis nowadays is more on the ability of knowledge and technology transfer and adaptation of the vast masses of information available SCHIENSTOCK & HÄMÄLÄINEN, 2001. Managing the technology and knowledge transfer is thus the most essential source of innovativeness in the modern information society. Where there is a rich innovative infrastructure, ranging from research institutes, to universities, colleges and technology transfer agencies, and institutional learning is routine, firms have considerable opportunities to access or test knowledge, whether internally or externally generated to the region, COOKE, 2002. Therefore, besides the main-stream science and technology policies, new coordinated innovation policies should be promoted in order to achieve constructed regional advantage, HARMAAKORPI, 2006. These policy measures are targeted at facilitating building a regional innovative milieu rich in interaction between the innovating partners inside and outside the region.

A regional innovative milieu

An innovative milieu is the set, or the complex network of mainly informal social relationships in a limited geographical area, often determining a specific external 'image' and internal 'representation' and sense of belonging, which enhance the local innovative capability through synergetic and collective learning processes, CAMAGNI, 1991, 3, and build a strong regional reputation. An innovative milieu is built on the regional innovation system, see e.g. BRACZYK *et al.* 1998, which is a system of innovative networks and institutions located within a certain geographical area, with

regular and strong internal interaction promoting the innovativeness of the region KOSTIAINEN, 2002.

Thus, a regional innovation system consists of different multi-actor innovation networks aiming at increasing regional innovativeness. These networks have different forms defined by, for example, their origin, size, structure and objective HARMAAKORPI & NIUKKANEN, 2007. They are typically formed of heterogeneous groups including representatives of firms, universities, technology centres and development organisations. Because of the loose structures, special attention should be paid to both the relationships inside a network and the relationships between different networks, emphasising the significance of a trustworthy regional atmosphere as the source of innovation TURA & HARMAAKORPI, 2005a.

In the networked innovative milieu *social capital* NAHAPIET & GOSHAL, 1998; ADLER & KWON, 2000 is, therefore, a central factor in promoting innovativeness TURA & HARMAAKORPI, 2005a. According to PORTES, 1998, 7, “whereas the economic capital is in people’s bank accounts and human capital is in their heads, social capital inheres in the structure of their relationships”. Social capital cannot be traded, but is in practice created only through constant co-operation. The importance of social capital in creating regional competitiveness is related to the fact that it cannot be copied or transferred from one regional innovative milieu to another. However, it can easily be destroyed because of the bottlenecks and problems existing in the network.

An essential source of innovation and thus also a prerequisite for a regional innovative milieu is *creativity*. Eliminating the obstacles to creativity is one of the vital elements in maintaining the innovative capability. Our society is overflowing with creativity-stifling factors against which an enriching dialogue within an innovative milieu may act BOHM & PEAT, 1992; HIMANEN, 2004. The regional innovation system should thus include sufficient openness and creative tension: one

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should be able to also express dissenting opinions and critical comments in the networks

SOTARAUTA & MUSTIKKAMÄKI, 2001. Without this creative tension the networks of the innovative milieu are threatened by lock-ins, closure and cliques leading to a collective blindness.

Knowledge is said to be the most important production factor, and learning to be the most important process in modern society LUNDVALL & JOHNSON, 1994. In the innovative milieu, an interactive and collective way to learn is emphasised HARMAAKORPI & MELKAS, 2005.

Collective learning is a process of dynamic and cumulative knowledge creation that has, due to its interactive character, numerous synergy advantages CAMAGNI, 1995. Synergy advantages in the innovative milieu emerge, when knowledge is transferred from one expert to another, and trust is built in the collective learning process. This process based on intensive sharing creates innovations and new knowledge.

Significant innovations are often created through coincidence. Growth centres grow because they have *interfaces for coincidences*, HARMAAKORPI & TURA, 2006. Complexity is said to nourish innovations. In the innovative milieu the aim is therefore to find innovations in the middle-ground of different technologies and industries JOHANSSON, 2004, in other words, to give coincidence a chance in sometimes very unorthodox combinations.

The competitiveness gained in the innovative milieu by the existing resources rapidly becomes outdated as the technologies and the operational environment are renewed. The regions must take care that these renewal processes can be taken into account in organisational and institutional development. The future competitiveness demands the new technologies and working methods be brought to the use of the organisations, on the one hand, and promote the visionary capability of the organisations to become aware of these changes, on the other. The future should be looked to

through the resource-based *future research* in order to assist the renewal of the innovative milieu UOTILA, MELKAS & HARMAAKORPI, 2005; HARMAAKORPI & UOTILA, 2006.

The alleged interdependencies of innovativeness, an innovative milieu and regional competitiveness are the basis of the first proposition of our model.

Proposition 1: Improving regional competitiveness necessitates the development of a regional innovative milieu.

An innovative milieu enhances regional innovative capability

According to the resource-based view an actor's performance depends on its resources and capabilities, see e.g. WERNERFELT, 1984; BARNEY, 1991. Valuable, rare, inimitable and non-substitutable resource configurations lay the foundation for the competitiveness of an actor. The world is in continuous change and the actors face the risk that the old resource-base will become uncompetitive leading to a declining performance. Therefore, the resource configurations need to be renewed continuously. The framework of dynamic capabilities, see TEECE et al., 1997, offer a fair foundation on which to assess the capabilities needed in the transformation processes of an actor.

An actor's dynamic capabilities can be defined as the actor's processes that use resources, especially the processes that integrate, reconfigure, gain and release resources, to match and even create market change. Thus, dynamic capabilities are the organisational and strategic routines by which actors achieve new resource configurations as markets emerge, collide, split, evolve and die.

EISENHARDT AND MARTIN 2000, 1107. Actually, it is basically a question of an actor's capability to innovate, since "the production and use of knowledge is at the core of value-added activities, and innovation is at the core of firms' and nations' strategies for growth", ARCHIBUGI AND MICHIE, 1995. In this study regional innovative milieu is seen the resource configuration

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enabling a region to innovate and to increase the region's innovative capability as a core dynamic capability.

Regional innovative capability can be defined as the ability of a regional innovative milieu to interactively use and renew the regional and interregional resources and to create regional competitiveness through networked innovation activities HARMAAKORPI, 2004. Regional innovative capability not only helps to defend against the negative impacts of changes, it also encourages the use of the opportunities they offer. This all necessitates a significant increase in the regional innovative capability, which in turn calls for a coordinated regional innovation policy. This notion opens up the second proposition of our model.

Proposition 2: Regional competitiveness necessitates enhancing innovative capability and coordinated innovation policy.

Can an innovative milieu be a cornerstone for regional reputation?

In the business world, the concept of reputation has been one of the eye-openers in recent times. Reputation and reputation management have been studied, for example, from the perspectives of economic success FOMBRUN, 1996; AULA & HEINONEN, 2002, competitiveness DAVIES *et al.*, 2003, business and social responsibility WILLMOTT, 2001 and cultural representations KARVONEN, 1999 and risk management LARKIN, 2003. Measuring reputation has been discussed widely FOMBRUN & VAN RIEL, 2003; CARUANA *et al.*, 1995; CARUANA, 1997; LEWIS, 2001. On average, a business reputation has been regarded as a strategic issue comprising extended impressions of the organisation built around images and actions FOMBRUN & SHANLEY, 1990. This view includes the argument that reputation is positively related to companies' competitive advantage FOMBRUN, 1996; FOMBRUN & VAN RIEL, 2004. However, reputation is not limited to corporations and other organisations. Regional reputation can be

conceptualised as the composition of the images and experiences which emerges from the encounters of the region and its interest groups AULA & HEINONEN, 2002; AULA & MANTERE, 2005.

Reputation can be connected to three fundamentals. On the one hand, reputation is something talked and told about SMYTHE, DORWARD & REBACK, 1992. From this perspective, reputation is produced and reformed through storytelling or in other kinds of culturally bound representations GEERTZ, 1973. Reputation is thus always linked to communicational dimension, which can be called the communication principle of reputation. On the other hand, reputation is related to an assessment of its object, which can be called the evaluation principle of reputation. In addition, reputation has something that makes a difference between one object and another; this can be called the distinction principle of reputation. Through these principles, good regional reputation necessitates functional communication networks both inside a region and between a region and its co-operation partners. A region must endeavour to manage its reputation and thus affect the evaluations made of it. Moreover, a region must develop something unique, which distinguishes it from other regions.

The significance of a good reputation is often described through the concept of emotional appeal FOMBRUN, 1996; FOMBRUN & VAN RIEL, 2003. In the same way as an organisation's reputation affects how good it is considered to be, a region's reputation affects its appeal. The more attractive a region the better its potential for economic success. From a regional point of view, a good reputation affects regional operational preconditions. Reputation builds trust and brings esteem. Reputation affects the opinions of the regionally important interest groups and evaluations of the region, and is significant in, for example, placing or investment decisions.

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On the one hand, reputation is built on continuity, stability and established actions. From a regional point of view, for instance, local economic and socio-historical factors are important. This is a conservative side of reputation, and reputation is built and developed through evolution. On the other hand, there is also a dramatic dimension to reputation. Good regional reputation must reflect the object’s ability to change constantly, the direction, strategies and objectives of development. Simultaneously, a good reputation is a guarantee of movement, driving a municipality or a town towards its objectives and better actions. Often, the change is unpredictable. Thus reputation can evolve in a revolutionary manner, in leaps and bounds AULA & HEINONEN, 2002; AULA & MANTERE, 2005.

A high-quality reputation cannot exist without genuine substance. Thus, to be at the heart of a good reputation, an innovative milieu must exist in reality. “Real” comes from actions requiring active initiative and careful planning. An innovative milieu is a platform for a potential reputation, and its building can be guided with a coordinated regional innovation policy. A regional innovative milieu, in turn, compiles innovative capability and develops reputation, which in the long term can lead to improved regional competitiveness. This leads us to the last proposition of our model.

Proposition 3: Improving regional competitiveness necessitates the active development of reputation

With the three propositions and their interdependencies we are able to sketch a model on the development of an innovative milieu reputation (Figure 1).

Figure 1 about here

Data and Methods

The model of the development of an innovative milieu reputation (Figure 1) will act as a heuristic tool when examining the potential of a region to have a reputation as an innovative milieu. The study design is close to an explorative case study YIN, 1993, as the phenomenon to be examined is new, lacking former empirical evidence. Although not guaranteeing generalised observations, the explorative approach enables the increased understanding of this specific phenomenon. Instead of empirical causal explanations, we have aimed at more theoretical, authentic and credible generalisations, see YIN 1981; ALVESSON & DEETZ 2000.

Our research data consists of the innovation strategies or other strategy texts containing comments on innovation policy of the nine largest urban regions in Finland. These texts can be assumed to present the official innovation policies of the urban regions, which form, or should form, the basis of the development of the local innovation systems.

We conducted our analyses of the strategies inductively, and the data was examined and categorised thematically in two stages. Comments on innovation strategy were selected as observations. In the first stage, we read strategies and coded all relevant strategy texts using broad categories based on our heuristic model. We used a generic three-category coding schema for strategy reading (“innovative milieu”, “innovative capability”, and “reputation”). The categorised texts were studied closer and classified and juxtaposed by each urban region. Thus, it was possible to examine the eventual similarities and differences. The example of the comparative data of the regions studied is presented in Table 1.

Table 1 about here

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In the second stage we focused on the case Lahti urban region to capture the more detailed level of the practices and operations done which could be categorised under the terms of development of a regional innovative milieu and reputation building. With the intention of capturing the operational side of the Lahti strategy, we expanded our data collection to other documents in addition to strategy texts. This categorisation was then reflected against the strategies of other urban regions. This proved to be a workable method, raising the characteristics typical of one urban region and their conditioning on the strategies of other urban regions. Finally, we set the findings against the generated model (Figure 1) which led to complementing and refocusing the model.

The context: urban regions and regional innovation strategies

The Advisory Committee for Large Urban Regions decided on 28 September 2004 that the nine largest urban regions will draft their own regional innovation strategy by 1 May 2005, in which they will also study their role as part of the national innovation system. The request contrived to achieve commensurate strategies according to the following guidelines, SISÄASIAINMINISTERIÖ, 2004:

“In the preparation of the urban region innovation strategy, it should be taken into account that there may be certain common elements, which can act as a base for a large urban region policy mix being devised. The functioning of the innovation chains in the different clusters is important and the development of innovation systems with the support of, for instance, universities has a crucial role in the policy mix. The policy mix also means the development of, for instance, transportation systems, strengthening social integrity and multi-cultural values and improving the urban environment. These measures, in turn, necessitate the contribution of several ministries, such as letters of intent related to the transportation systems from the Ministry of Transport and Communications, development project funding from the Ministry of Social Affairs and Health to

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3 solve the special problems in the large urban regions, and the projects of the Ministry of the
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5 Environment to improve the quality of the urban environment and public facilities, as well as
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7 suburbs.”
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12 The urban regions responded in different ways, either by making new strategies or by referring to
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14 their existing strategy or strategies. The urban strategies of the Helsinki Metropolitan District,
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16 Jyväskylä, Lahti, Lappeenranta-Imatra and Vaasa were completed by June. In Kuopio, the contents
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18 of the innovation strategy are dealt with via the existing strategies. In Tampere, a compilation of the
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20 regional innovation plans was gathered based on the existing strategies. In Turku, innovation
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22 activities are related to the city and cluster strategies. In Oulu, the regional innovation strategy
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24 corresponds to the growth pact of the Oulu region for 2006. The core points of the regional
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26 innovation strategies are presented in Table 2.
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33 Table 2 about here
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38 The different attitude of the urban regions towards the commission by the Ministry of the Interior
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40 makes it more difficult to compare the strategies of the urban regions and those of Lahti. However,
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42 the innovation strategy of the Lahti urban region differs from the others. In other urban regions, the
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44 central elements of the strategies are the general development of the innovation environment,
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46 strengthening the knowledge base and trust in strong research. Also, the strategies typically seem to
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48 have faith in the economies of scale in producing innovations. There are several mentions of the
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50 significance of networking in the strategies, but very often they are general. In the Lahti urban
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52 region, the focus is on launching practice-based innovation processes and creating regional
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54 networks and supporting them concretely. There is a strong belief in the region to be able to connect
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56 the scientific knowledge in the neighbouring strong research centres to the emerging practice-based
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regional innovation processes. The region strives to generate, in a practice-based way, opportunities for coincidences and to build high-level interfaces to exploit them.

The central differences between the innovation strategies of the large urban regions with universities, and those of Lahti, are condensed in Table 3.

Table 3 about here

Case: the Lahti urban region

The Lahti urban region is among the nine largest urban regions in Finland. In this group it is the only urban district without a university of its own, which results in a lower level of research compared to the other large urban regions. Having a university is seen as one basis for innovation, and a low level of research does not provide a good foundation for the image of the Lahti urban region as an innovative milieu. The region has, however, decided to start building an innovative milieu through the concept “network-facilitating innovation policy”.

Coordinated innovation policy and its objectives in building regional innovative milieu

The Lahti urban region lacks the important scientific resources to produce radical innovations. However, because of the University Consortium (including connections to the university main campuses) and the Polytechnics, the region has the potential to create functioning innovation policy methodsⁱⁱ. The Lahti urban region concentrates on creating a “network-facilitating innovation policy” SCHIENSTOCK & HÄMÄLÄINEN, 2001; HARMAAKORPI, 2004. Through the network-facilitating innovation policy, the regional innovation system is developed in a way that

the regional resource platform can be exploited benefiting both the private and public sectors.

Because of the narrow regional resource platform, attention must also be paid to the inter-regional networking and accumulation of active communication networks to get all the knowledge needed in the region and spread the reputation.

The aims of developing the regional innovative milieu are described mainly in three regional strategy papers: Innovation strategy of the Lahti Region PÄIJÄT-HÄMEEN

INNOVAATIOSTRATEGIA – KOHTI VERKOSTOJA PALVELEVAA

INNOVAATIOPOLITIikka, 2005, Development strategy of Lahti urban region innovation environment LAHDEN KAUPUNKISEUDUN INNOVAATIOYMPÄRISTÖN

KEHITTÄMISSTRATEGIA, 2005, and Higher education and research policy of the Lahti Region

PÄIJÄT-HÄME KÄYTÄNTÖLÄHTÖISEN INNOVAATIOIMINNAN HUIPPUALUEEKSI –
YLIOPISTOJEN JA KORKEAKOULUJEN ALUEELLINEN STRATEGIA, 2005.

According to innovation strategies the special task of the network-facilitating innovation policy is to produce practice-based actions to remove the obstacles of innovativeness and bring the needed knowledge in support of the innovation processes. From the point of view of reputation accumulation, the innovation policy directs the functional core of reputation.

The network-facilitating innovation policy in the Lahti urban region should, in particular PÄIJÄT-HÄMEEN INNOVAATIOSTRATEGIA – KOHTI VERKOSTOJA PALVELEVAA
INNOVAATIOPOLITIikka, 2005:

- create practice-based innovation processes
- create multi-actor and multi-disciplinary innovation networks to support the objectives set in other regional strategies

- bring the knowledge located outside the region to the use of the local actors through inter-regional networking
- promote generating creative social capital and creative collective eruptions in the networks
- promote collective learning including managing the future knowledge, tacit knowledge and explicit knowledge
- eliminate the bottlenecks and problems in the networks hindering the networking
- prevent the development of the regional lock-ins with an active search for new development paths
- create chances and interfaces for coincidences

The goal of the Lahti urban region innovation environment development strategy is to turn Lahti into LAHDEN KAUPUNKISEUDUN INNOVAATIOYMPÄRISTÖN

KEHITTÄMISSTRATEGIA, 2005:

- a region with the best practice-based innovation activities in Finland
- the best developer of the public sector innovativeness and productivity in Finland
- a centre of international environmental expertise
- a centre of creative culture

First and foremost the regional innovation strategies try to build “a regionally networked innovation system” as defined by ASHEIM & ISAKSEN, 2005, 83. The aim is to move the emphasis from the research and development (R&D) functions towards connect and development functions (C&D), see HUSTON & SAKKAB, 2006. Due to the lack of a regional science-base, practical contexts are stressed as a source of innovation. Practice-based innovation activities mean the innovation processes triggered by problem-setting in a practical context and are conducted in un-linear processes using synthetic, see ASHEIM & COENEN, 2005 or Mode 2, see GIBBONS *et al.* 1994,

knowledge production in cross-disciplinary multi-actor innovation networks. In order to succeed the practice-based innovation processes also need new research and education strategies.

Reputation, regional innovation policy and higher education

Universities and polytechnics form an essential part of the Finnish innovation system. The Lahti urban region is a university consortium area with strong polytechnic activities. The region differs to a great extent from the traditional university regions, which are seeking success through focused research activities and the advantages of agglomeration. There the normal flow of students to the universities can guarantee the constant flow of human capital. Also, there the universities are able to lean on the economies of scale: they have human capital available for research resulting in competitiveness and wellbeing in the region. University regions do research-based innovation activities relying on increasing the research input, creating research centres of excellence and promoting technology transfer as the continuance of research. In the Lahti urban region, in turn, the universities and the polytechnic are expected to enhance practice-based innovation activities through network-facilitating innovation policy and first-rate knowledge transfer mechanisms into the region. PÄIJÄT-HÄME KÄYTÄNTÖLÄHTÖISEN INNOVAATIOIMINNAN HUIPPUALUEEKSI – YLIOPISTOJEN JA KORKEAKOULUJEN ALUEELLINEN STRATEGIA, 2005. The policy in the Lahti urban region will, thus, create prerequisites for the demands of the distinct reputation principle on uniqueness and distinction.

The actors in the Lahti urban region are contemplating whether there are some advantages in “economies of mid-scale” in the university activities with which to compete with economies of scale. The Lahti urban region with its middle-sized centre, Lahti, could be diversified enough to move towards a genuinely interesting new kind of university policy. The region seeks, through social networking, network externalities and knowledge transfer mechanisms, to overcome the relative weakness caused by a rather limited regional knowledge base. PÄIJÄT-HÄME

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KÄYTÄNTÖLÄHTÖISEN INNOVAATIOIMINNAN HUIPPUALUEEKSI – YLIOPISTOJEN
JA KORKEAKOULUJEN ALUEELLINEN STRATEGIA, 2005.

Table 4 outlines the differences between the traditional university region and the Lahti urban region
with a university consortium, as well as the reflections of the differences on the accumulation of the
regional reputation of Lahti, cf. PÄIJÄT-HÄME KÄYTÄNTÖLÄHTÖISEN
INNOVAATIOIMINNAN HUIPPUALUEEKSI – YLIOPISTOJEN JA KORKEAKOULUJEN
ALUEELLINENN STRATEGIA, 2005.

Table 4 about here

Innovation tools: the practice of reputation building

The directions of coordinated innovation policy and its objectives are insufficient to build a regional
innovative milieu. The policy objectives need to be put into practice by adequate innovation tools
that enable the forming of innovative milieu, increasing the regional innovative capability and
setting the cornerstone of the regional reputation building. These practical tools are presented in this
section of the article.

There are many, even controversial views on the contents of the concept of reputation. There seems
to be unanimity on one thing: a good reputation cannot be built without good actions. From the
regional point of view this means that a good regional reputation cannot be built, for example, on
image campaigns alone. From the regional point of view, Lahti city and the Lahti urban region
pique one’s interest. Many people remember the efforts to build “regional brands” in recent
decades. The reputation of Lahti as the “Chicago of Finland” and the slogan “Lahti, the business
city” remain alive in many stories. If the Lahti urban region wishes to gain a reputation as an

innovative milieu and thus fulfil its reputation goal, the prerequisites are good actions, in other words, an active regional innovation policy and ways to implement it.

It seems to indicate that the Lahti urban region has developed, and will be developing, the means to support the network-facilitating innovation policy, with the aim of evoking practice-based innovation processes and network the necessary know-how to support them. The aim is to break the traditional chain of basic research – applied research and R&D by absorbing the basic level research knowledge to the ongoing organisation's innovation processes. The central new idea, a sort of institutional innovation, is the use of the tools presented in a coordinated, determined and co-operational way as part of the regional innovation policy. These tools are related to, cf. LAHDEN KAUPUNKISEUDUN INNOVAATIOYMPÄRISTÖN KEHITTÄMISSTRATEGIA, 2005

- the renewal of companies, the public sector and the third sector
- the promotion of generating new companies
- the futures foresight
- the networking between companies and regional innovation policy questions
- the networking with inter-regional research organisations
- the new innovation policy evaluation model

The renewal of companies, the public sector and the third sector

The core of the renewal of companies, the public sector and the third sector is the creation of practice-based, multi-actor innovation networks. Their creation can be enhanced in many ways. One renewal supporting practical tool in the Lahti urban region innovation strategy is organising company, cluster, thematic and future foresight related innovation sessions, see HARMAAKORPI & TURA, 2006, and supporting the following innovation processes.

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The meaning of the innovation sessions is to combine the regional and inter-regional expertise for the benefit of the companies' innovation measures. The sessions are always company-oriented although active measures are taken to forward different new themes in companies. The innovation sessions are never single events, securing the continuum of the processes has been taken into account in planning every session. This places special demands on the co-operation of the whole innovation system. The innovation sessions create opportunities for innovations, but the final success is determined by new interfaces being offered to new success stories. The aim is to organise 30 innovation sessions yearly in the Lahti urban region. After about 50 organised innovation sessions the experiences are encouraging, indeed.

The innovation session method is targeted mainly at finding new strategic moves through mega trends and new technologies. However, quite a significant innovation potential can be found in the organisations' "everyday" activities. Unfortunately, the culture and the innovation promotion systems in organisations do not often support such exploitation of the innovation potential; separate, single innovations are not realised and the whole innovative capability of an organisation will deteriorate. The "innovation catcher" system is aimed at promoting the "floor level" innovativeness in organisations. It is a systematic way of going through the innovation ideas created during the normal everyday activities. Its purpose is to couple the knowledge existing in the innovation system to the evaluation and development of the innovation ideas, and to support the building of an innovative organisation culture. The innovation catcher system is being tested in the Lahti urban region to explore this innovation potential. The aim is to "install" 20 innovation catchers yearly in the Lahti urban region. Innovation sessions and innovation catchers are being tested in the public and third sector on the same principles as in the private sector.

The promotion of generating new companies

The network-facilitating innovation policy is, at its best, the lever for developing innovative company ideas through innovation sessions and innovation catchers. Sources for company ideas are mainly the innovations ideas outside the existing companies' core competences, the spin-offs which can be attracted to the region through the experts participating in the innovation systems outside the region, and the company ideas developed from the public sector innovative solutions. The crucial task is to create mechanisms to process new company ideas during the innovation sessions and innovation catchers, and to pick up on these company ideas. It is essential to link the regional incubators to process the company ideas further.

Futures foresight

Part of the implementation of the regional innovation strategy is the foresight process on the technology and environment changes, conducted regularly through resource-based futures research. The process is as follows: HARMAAKORPI & UOTILA, 2006: 1) defining the regionally crucial megatrends and technology processes to be assessed, 2) exploring the weak technology signals using the Delphi process with the assistance of selected high-level experts, 3) inject the weak technology signals of the first Delphi round into the companies' innovation processes through innovation sessions. In the Lahti urban region, the first foresight process was conducted in 2005. The results are used continuously in the innovation sessions.

Innovation club

A regional innovation benchmarking club energises the co-operation of companies and familiarises them with the new questions of innovation processes and systems. The aim of the club is to transfer

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3 best-practices between the companies and to transmit the practical demands of the companies for
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5 the development of the regional innovation system. The concept of innovation benchmarking also
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7 includes education organised for the innovation personnel of the companies as well for the
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9 personnel in the public sector.
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15 *Mentor professor and innovation promoter system*
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19 The mentor professor and innovation promoter system was introduced in the regional university
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21 strategy (2005). The system is essential when conducting the network-facilitating innovation policy
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23 and enhancing practice-based innovation activities. It is a new way of developing the regional
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25 effectiveness of the Finnish university system. In the Lahti urban region, the aim is to promote the
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27 networking of the regional university and polytechnic activities to the regional innovation processes
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29 in practice and to the sources of high-level knowledge without scattering the scarce national
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31 resources.
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37 The principle of the mentor professor system is to integrate the knowledge in strong research
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39 centres as part of the regional innovation system and practice-based innovation activities. The fields
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41 of knowledge essential to the Lahti urban region are linked to the region by forming strategic
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43 alliances with the university faculties, departments and professors. The mentor professors are
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45 university professors by whose assistance methods for dialogue and co-operation between the
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47 region and the allied university faculties are created. The innovation promoter system at
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49 polytechnics also differs from the traditional methods. The innovation promoters are experts in the
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51 network-facilitating innovation policy methods, contributing actively to the regional innovation
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53 processes, and continuously making links between the knowledge in their own mentor organisations
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55 and the on-going innovation processes.
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The new innovation policy evaluation model

The network-facilitating innovation policy can be described as a well-grounded assumption or, in a loose sense, “a theory” the relevant means by which the companies and the public and third sectors in the region can produce innovations and increase the regional competitiveness and well-being.

The correctness and long-term success of the policy as a theory can perhaps be evaluated in a few years. The success of the innovation policy is thus finally always measured by its results and regional effectiveness. It is crucial to show if the chosen policy enables success also in changing conditions TURA & HARMAAKORPI, 2005b.

Thus, it is critical to monitor and redirect the regional innovation policy also in the short term. The evaluation must answer whether the innovation policy has the potential to finally affect the competitiveness: does it enhance the formation of such structures and actions that may give rise to the long-term development of innovativeness. The network-facilitating innovation policy is guided especially by the following elements TURA & HARMAAKORPI, 2005b:

- Innovations are created in very unpredictable ways and in unpredictable places.
- Innovations are created in the interfaces of different actors and sectors – in multi-actor, multidisciplinary networks benefiting from the resources outside the region.
- Innovations are created in places with creative social capital and prerequisites for collective learning.

There are characteristics in the Lahti urban region making its position problematic in the national innovation system. The main ones are the absence of a university and the low regional investment in research. From the evolution-oriented perspective, the Lahti urban region emphasises factors in

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its strategies which at their best can act as strengths in building a reputation. The challenge here is how to apply the potential in practice.

Discussion

The purpose of this paper is to conceptually connect the characteristics of the competitive regional innovation environment with reputation management to a cornerstone of regional competitiveness. We used the case of the Lahti urban region to illustrate these connections both in conceptual and practical levels.

We made theoretical propositions that connected regional competitiveness to regional innovative milieu, innovative capability and coordinated innovation policy, as well as active reputation management. Our task was not to empirically prove these connections, but to identify characteristics which could help us describe and understand the explicit operations made to enhance regional competitiveness through innovative milieu, capability and policy, and reputation. We used case Lahti to examine these connections. One thing learnt from our case study is the interconnected nature of regional social capital and reputation and, thus, innovative milieu.

The reputation of the Lahti urban region as an innovative milieu is versatile and complex. It seems that regional reputation is strongly attached to how a region is able to create and accumulate regional social capital. In the question of regional reputation, social capital can be observed as an analogy to social capital in organisations. According to the sketching of NAHAPIET & GHOSPAL, 1998; see also AULA & MANTERE, 2005 social capital in an organisation includes structural, relational and cognitive dimensions.

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3 Seen from the regional point of view, the structural dimension of social capital includes the social
4 network of the region and its actors. This can either relate to the official PR of the regional
5 authorities, or the personal relationships of its actors, like the representatives of companies and
6 other organisations. Thus, in organisation research, structural social capital relates to the width of
7 the network, and the position of the organisation within the network: whether it has an important or
8 marginal role in the network. Regionally, the situation is parallel. The structural social capital in a
9 region is dependent on the position it holds in the network, and its actions there.

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12 Relational social capital does not deal with the structure of the network, but the quality of the
13 relationship the organisation has with other members of the network. Regionally, we can speak
14 about relational capital. A region with rich relational capital is trusted and it is desirable to have a
15 relationship with it. Besides trust, common identification, norms, mutual agreements, and other
16 social phenomena determining the inter-relationships within the network are crucial. The cognitive
17 dimension, in turn, is related to the cultural and symbolical capital besides social capital. It includes
18 the common language shared by the actors, common stories and meanings. Simply being in the
19 network is not enough, nor is forming good relationships with the other actors; what is necessary is
20 the ability to communicate efficiently in the network. Organisations' reputations among the
21 organisation interest groups are built on stories and other shared meanings. Thus, it is very much a
22 part of the socio-cognitive capital of an organisation. On the other hand, reputation is also related to
23 trust and other features of relational capital. A good reputation is not built merely on the fact that an
24 organisation is known, a good reputation means that the organisation is trusted and you can identify
25 with it AULA & MANTERE, 2005.

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28 The integration of regional reputation and social capital necessitates a revision of the earlier model
29 presented of building an innovative milieu (Figure 2).

Figure 2 about here

It should be emphasised that focused reputation building is irrelevant if adequate attention is not paid to the evaluation of the action and follow-up of the results. It can be shown that a reputation cannot be managed or built if there is no awareness of its nature and changeability. Therefore, one crucial process in reputation building is evaluation. Plainly stated, reputation evaluation means monitoring a reputation through systematic, expedient meters. If the goals for reputation building are defined, the evaluation of the results causes no problems when the same evaluation methods are used systematically. The aim of the reputation evaluation processes is to create a continuous, systematic method to produce, from the internal and external environment, usable foresight knowledge to support decision-making AULA & HEINONEN, 2002.

Finland is among the first countries by all measurements on research and development costs. However, there is no corresponding amount of wellbeing contributed by research, as innovation processes do not offer enough support to practice-based innovation processes. The Lahti urban region wants the reputation of a pacemaker of practice-based innovation activities, which it presumes to have good potential due to the logistic position of the region, industrial tradition, competence structure and the application of network-facilitating innovation policy. There is a vast national opportunity in developing the public sector productivity and innovativeness. The Lahti urban region seems to have started to actively use this potential also outside strategy texts. The size and structure of the Lahti urban region, as well as the competence basis in the region, set qualifications which may become the innovative milieu set in the objectives, with an innovative public sector and a new regional service structure.

The Lahti urban region has plenty, and on other hand, it has nothing as yet. The region has the potential to become an innovative milieu. Still, it has no automatic motors for building the milieu, such as strong university and research activities, which evidently could raise the innovativeness in the region. So, the Lahti urban region must succeed in building innovative capability in other, also unorthodox methods. This places high demands on the regional network of developers and their co-operation ability – their social capital. In particular, it demands a vast amount of social energy to implement the necessary change in the regional cultural actions. It is a question of a competition between the practice-based activities and social capital in the Lahti urban region and the research-orientation and intellectual capital in the university regions. In the Lahti urban region, the energy of actions leading to success can be seen in the thoughts of BENNIS & WARD BIEDERMAN, 1996 on features characterising very creative groups: one of them is that the groups feel they are challengers or winning underdogs. These groups are often rebellious enough to seek success outside the mainstream and are proud of their fresh achievements KOSKI, 2001. It is to be assumed that such an atmosphere is necessary in building an innovative milieu out of the Lahti urban region, willing to go against the mainstream and being confident in its own way to create success. A region's reputation as an innovative milieu can at its best be formed over many years through distinctive actions and communication of work well done.

The Lahti urban region is an individual case, but it is not unique: there are many similar regions in the world squeezed in between large university regions. It would be extremely interesting to compare, for example, similar European regions through the developed model. Due to the limited space this has to be left for further studies, unfortunately. In this study we have to be satisfied with the assumption that a model that works with some object will most probably be applicable to other fairly similar objects, in this case sub-national regions, as well, KASANEN *et al.*, 1993. Therefore, this study focused on one deep case study and comparison of this case with the university regions in Finland. The model will be used in comparative studies in the near future.

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Conclusions

Our model of the building of an innovative region contains an implicit allegation on the relationship of regional reputation and reality. Reality building is imperative for reputation building, but it is insufficient on its own. A good regional reputation necessitates, besides good actions (innovative capability), “telling of the good”, that is, active reputation management AULA & MANTERE, 2005.

From our point of view, the reputation of an innovative milieu is largely built on the social capital accumulating and maintained in the region. The essential thing in the concept of structural social capital is how well the actors of the innovation system and the innovation actions themselves are known, and how well the actors know other actors contributing to innovation systems outside the region. A reputation built on cognitive social capital requires active communication networks both inside and outside the regional milieu. To work, the communication networks need communicative skills, common language and common experiences. Inspected from the perspective of relational capital, a reputation is built on good relationships: how well the regional innovation system and thus the innovative milieu are considered. To be constructed, relational social capital requires strong trust and an adequately uniform identity AULA & MANTERE, 2005. The relationship between social capital and regional reputation can be specified by stating that regions, as organisations, are dependent on their reputation.

To sum up, it is safe to conclude that an innovative milieu is a possible foundation for a reputation. At its best, an innovative milieu gives originality to a region, and builds factors for distinction (the distinction principle of reputation). The idea of an innovative milieu has to be integrated in all the

pull-factors of reputation, which are used as measurements in the evaluation of a region, and which affect the regional decision-making (the evaluation principle of reputation). When building a regional reputation, it must be remembered that the contents of reputation depend on internal factors like regional identity, see FOMBRUN, 1996, and functional communication networks (the communication principle of reputation).

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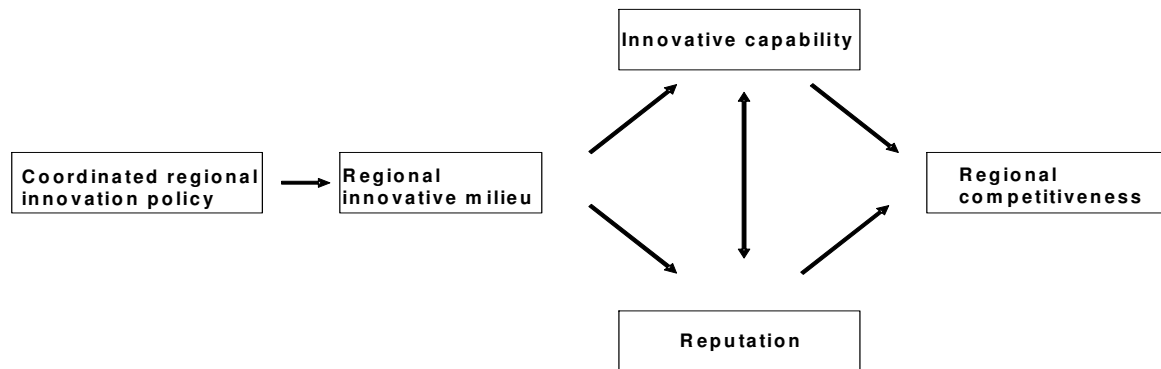


Figure 1. Model of the development of an innovative milieu reputation.

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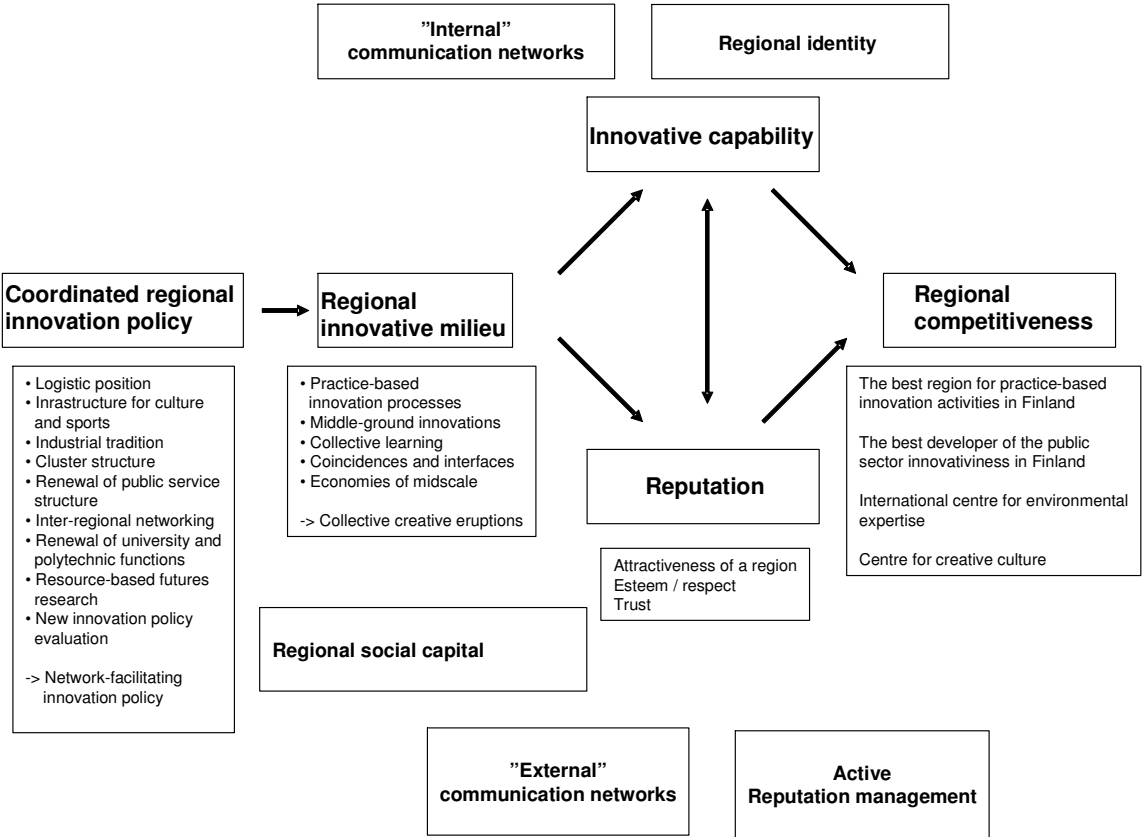


Figure 2. Revised model of innovative milieu building in the Lahti urban region.

	Population in the region	In Polytechnics share of people over 15 years	In Universities, share of people over 15 years	Degrees in polytechnics or universities, share of people over 15 years	R&D Million euros	€/resident	R&D index (whole country = 100)
Urban Regions	people	%	%	%			
Greater Helsinki	1, 224, 257	3.2	6.1	33.3	2, 212.1	1, 806.9	181.7
Jyväskylä	163, 390	4.7	10.3	27.4	180.8	1, 106.6	124.0
Kuopio	118, 050	5.6	6.2	27.3	101.2	875.3	82.6
Lahti	169, 386	3.5	0.1	21.5	43.3	255.6	23.2
Imatra- Lappeen- ranta	109, 791	3.1	6.0	21.2	77.8	708.6	
Oulu	202, 898	3.9	9.2	29.7	663.0	3, 267.7	226.4
Tampere	313, 748	2.9	9.9	28.2	793.8	2, 530.1	248.1
Turku	290, 524	3.3	8.8	26.8	315.0	1, 084.2	107.1
Vaasa	88, 798	6.9	9.3	27.4	88.3	994.4	94.3
Source: Statistics Finland 10/19/2005							

Table 1. Large urban regions: population, relative share of people in polytechnics and universities, R&D costs per region.

Urban region	Innovation strategy	Characterisation	Central objectives, Vision
Helsinki Metropolitan District	Together to the top: Innovation strategy of the Helsinki Metropolitan District	Independent innovation strategy. Very extensive operation to draft a regional innovation strategy	Helsinki Metropolitan District “the nationally important core of the competitiveness of Finland”
Jyväskylä urban region	Renewing its innovation strategy: Case Jyväskylä – Jyväskylä Human City	Extensive report to support the innovation strategy. Chiefly a background paper for the preparation of the innovation strategy	“vision is to develop Jyväskylä region into a centre of business and innovation expertise”
Lappeenranta-Imatra urban region	Innovation strategy of Lappeenranta-Imatra urban region	Independent innovation strategy	“the purpose of the innovation strategy is to strengthen the regional ability to create new knowledge and ideas”
Turku urban region	Turku strategy, the cluster strategies of Turku Science Park	No independent innovation strategy. Relates to the recently completed city strategy, meant to be developed into partial strategies, one of which is on innovation policy	Focuses are “competitiveness and sustainable development, wellness and quality of life, and promotion of vitality”
Lahti urban region	Innovation environment development strategy of the Lahti urban region	Independent innovation strategy	“Network-facilitating innovation policy aiming to increase practice-based innovation activities”
Vaasa urban region	Innovation strategy of Vaasa urban region	Independent innovation strategy. Is based on many existing partial strategies.	Implementation of “a scenario of growth and development”. “The most important goal in the development of the innovation system is local, national and international networking”
Tampere urban region	Innovation plans in Tampere region	No independent innovation strategy. Document “Urban region innovation plans”, drafted by the Regional Centre Programme	“attracting skilful people and companies, functioning infrastructure and transportation, cosy living environment

Oulu urban region	Growth pact Oulu 2006	No independent innovation strategy. Relates to a couple years old Growth pact	Central objective is to strengthen the region's "competitiveness and position as an internationally acknowledged centre of expertise
Kuopio urban region	Will and actions in the Kuopio region: Kuopio region in 2012, Kuopio strategy 2012 and objectives 2004, Kuopio on the globe – the globe in Kuopio: the internationalisation strategy of Kuopio 2012	No independent innovation strategy. Relates to other strategies.	"The objective of the region is to be in 2012 a centre of wellbeing, which is open to new ideas, attractive and internationalising

Table 2. The innovation strategies of the urban regions and the objectives and/or visions related to them.

Other large urban regions	Lahti urban region
Economies of scale	Economies of mid-scale
Research-based innovation processes	Practice-based innovation processes
General networking rhetoric	Concrete networking tools
Research-based university policy	Practice-based university policy
Human capital	Social capital

Table 3. The central differences in the innovation strategies

Large urban regions with universities	Lahti urban region – university consortium region	Reflections on the accumulation of regional reputation of Lahti
Strong focus on production of research knowledge	Main focus on inter-regional transfer of research knowledge, interactive dialogue with research centres of excellence	if realised, will increase networking and thus potential reputation
Strong investment on research knowledge production enables the creation of disciplinary centres of excellence	Low investment on research enable only a few areas of research, with the centred effort of the whole university community, success is sought especially on disciplinary interfaces	enables strong local identity
Big universities rely on their own largeness, pursuing co-operation with other universities and polytechnics is not seen essential	Units of the university consortium are small, to gain adequate critical mass, the success of the regional universities is sought through co-operation	if realised, will increase networking and thus potential reputation
New university level human and social capital in the region is gained through normal student applications	Increase of human and social capital should be realised through education models enabling lifelong learning	social capital crucial for reputation
Resource configuration to regional wellbeing and to a wider sphere of influence	Because of low resource configuration, university activities must rise from the needs of the region	risk for reputation, if the focus areas are mis-selected
Good conditions for the internationalisation process of the university and the region	Special attention must be paid the internationalisation process of the university and the region	risk for reputation, if internationalisation process fails
In big universities, there are new activities and structures slowing down multi-disciplinary co-operation	New regional multi-university model of action creates new possibilities for cross-disciplinary co-operation and ways of action	if realised, will increase networking and thus potential reputation

Table 4. Differences between university regions and university consortium regions; reflections on reputation accumulation.

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ENDNOTES

ⁱ The regions are Helsinki Metropolitan District, and Jyväskylä, Lappeenranta-Imatra, Turku, Lahti, Vaasa, Tampere, Oulu, and Kuopio urban regions.

ⁱⁱ University Consortium is a university network of the subsidiaries of three universities located in Lahti. The University Consortium has about 250 employees and the consortium focuses mainly on the fields of adult education, regional development and technology transfer. The Polytechnics are college-level institutions with about 5,500 students and 464 employees in the Lahti urban region.